

LO Funds – Global Climate Bond

2023 Impact Report -
Executive Summary

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Please go to our full report for more in-depth information.

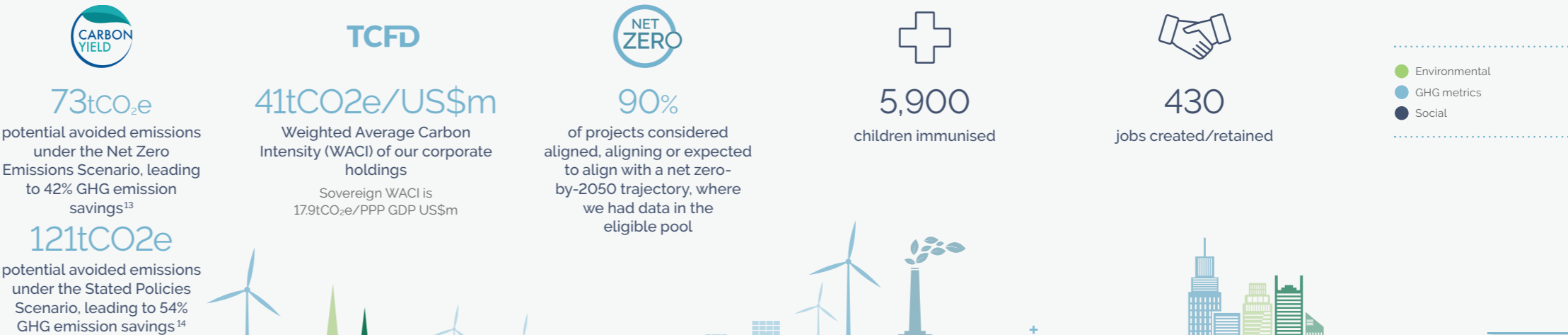
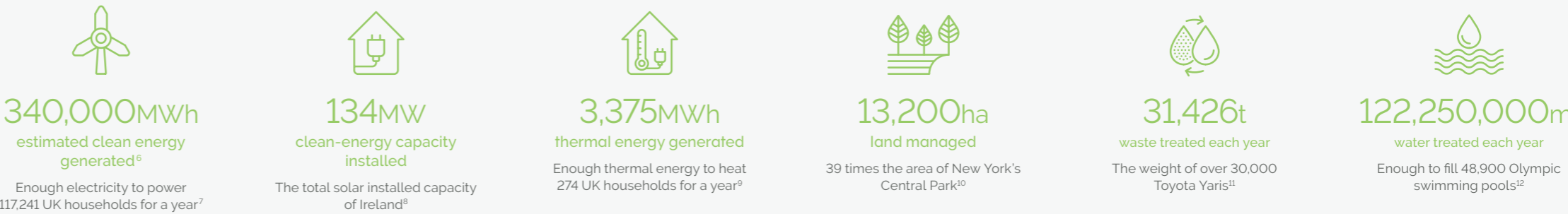


LO Funds – Global Climate Bond by numbers and impact highlights

Numbers



Impact highlights



¹ See page 72 of the full report for details of AIM Taxonomy and the eligible environmental sectors.

² See page 73 of the full report for details of AIM Taxonomy and the eligible social sectors.

³ The remaining 2% was in cash.

⁴ Inception to 31 Dec 2022.

⁵ As at 31 Dec 2022.

⁶ Estimate based on portfolio-weighted clean-energy installed capacity using IRENA Renewable Energy Capacity Factors, IRENA, Renewable Power Costs 2021, 2022. <https://www.irena.org/publications/2022/Jul/Renewable-Power-Generation-Costs-in-2021>

⁷ Ofgem (2022) estimates average household energy use as 2900KWh annually <https://www.ofgem.gov.uk/information-consumers/energy-advice-households/average-gas-and-electricity-use-explained>

⁸ The solar installed capacity of Ireland was 135MW in 2022. IRENA (2022) Trends in Renewable Energy. Available: <https://www.irena.org/Data/View-data-by-topic/Capacity-and-Generation/Technologies>

⁹ The median heat consumption of a UK home in 2021 12,300KWh a year. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1018725/efus-Household-Energy-Consumption-Affordability.pdf

¹⁰ Central park is 340ha.

¹¹ Weight of a 2020 Toyota Yaris is approx. 1000kg. <https://www.auto-data.net/en/toyota-yaris-xp210-1.5-120hp-38795>

¹² The volume of an Olympic swimming pool is approximately 2500m³

¹³ <https://www.iea.org/reports/global-energy-and-climate-model/net-zero-emissions-by-2050-scenario-nze>

¹⁴ <https://www.iea.org/reports/global-energy-and-climate-model/stated-policies-scenario-steps>

● Environmental
● GHG metrics
● Social

Sustainable Development Goals alignment

The portfolio supported 15 of the Sustainable Development Goals (SDGs) that set out a blueprint for peace and prosperity for people and the planet.¹

The largest share of the portfolio supports:

SDG 7:
Affordable and Clean Energy (24%)

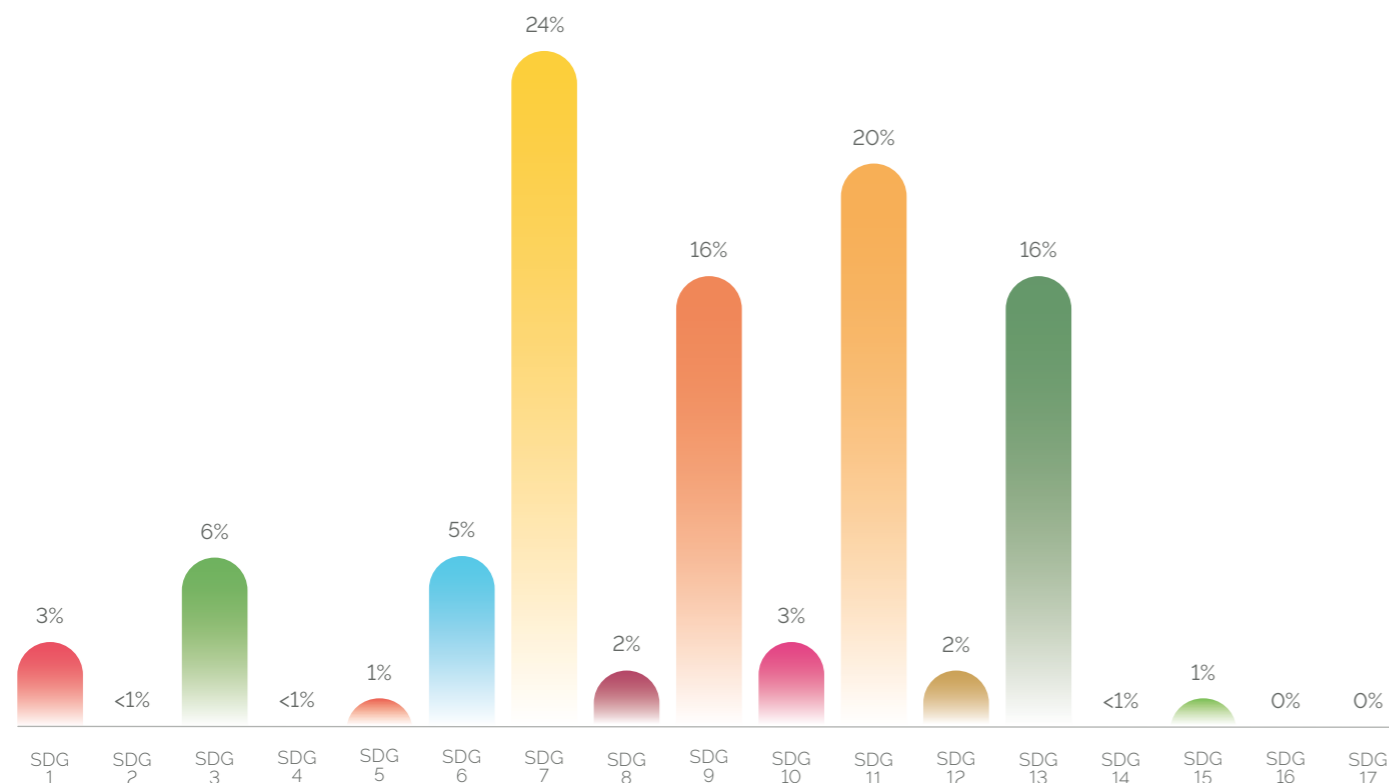
SDG 11:
Sustainable Cities and Communities (20%)

SDG 9:
Industry, Innovation and Infrastructure (16%)

SDG 13:
Climate Action (16%)



Portfolio-weighted SDG alignment
(US\$ equivalent)³



SUSTAINABLE DEVELOPMENT GOALS

¹ UN, Department of Economic and Social Affairs: Sustainable Development – the 17 Goals <https://sdgs.un.org/goals>

² Fujian Fishing Ports <https://projects.worldbank.org/en/projects-operations/project-detail/P129791>

³ Coverage ratio of 89% of 2022 average portfolio holdings.

SDG aligned case studies snapshot

Assistance for victims of gender violence in Spain

Comunidad de Madrid – Sustainability bond¹

Comunidad de Madrid's sustainability bond programme has supported a range of projects, including a social project that aims to address gender-based violence in the region.

Proceeds from the bond were allocated to specialised shelters for vulnerable women and their dependents. The shelters provide accommodation along with legal and employment services. Additionally, the project allocated funding to childcare day centres.

SDG supported



2,804
women
and children
supported

Making passenger vehicles cleaner and safer

Denso – Sustainability bond⁴

Denso used the proceeds from its first sustainability bond to enhance its manufacturing of components and safety systems for electric vehicles.

Proceeds were allocated towards the issuer's capital expenditures and research and development efforts, with a focus on EV components and safety systems. Additionally, Denso used the proceeds to install solar panels one of its sites, which reduces the GHG emissions from its manufacturing.

SDG supported



16,918tCO₂
emissions
avoided

Water and sanitation in Brazil

International Bank for Reconstruction and Development – Green bond^{5,6}

The World Bank's green bond programme supported a project that improves water management, access to water and sanitation, and resilience to the impacts of climate change in the state of Paraíba, Brazil.

Proceeds were used to fund infrastructure improvements, including water treatment plants, reservoirs, and upstream dams.

SDG supported



364%
increase in
reliable water
availability

Clean recycling centre in Norway

Kommunalbanken – Green bond^{7,8}

Kommunalbanken's green bond programme has financed a recycling centre in Kristiansand, southern Norway.

In addition to enabling the circular economy, the facility generates minimal GHG emissions as it is fully electrified and has on-site solar panels that are coupled with battery storage. The centre was also built using low-carbon materials, reducing the embodied emissions from construction.

SDG supported



20,000l
avoided diesel
consumption

¹ Comunidad de Madrid (2023) Sustainable Bond 2022 – Impact Report.

² <https://www.reuters.com/world/europe/spain-vows-more-vigilance-protection-murders-women-spike-december-2022-12-29/>

³ <https://www.reuters.com/world/europe/thousands-march-spain-demand-end-violence-against-women-2022-11-25/>

⁴ Denso (2022) Sustainability Bonds Report.

⁵ IBRD (2021) World Bank Green Bonds FY21 Impact Report | Project Tables.

⁶ IBRD (2019) IBRD Project Appraisal Document for the Paraíba Improving Water Resources Management and Services Provision Project, Available: <https://documents1.worldbank.org/curated/en/209951549917915776/pdf/p165683-br-paraba-water-security-pad-02082019-636853465426393784.pdf>

⁷ KBN (2022) KBN Impact Report 2022.

⁸ <https://avfallsor.no/levering-av-avfall/her-apnes-ny-gjenvinningsstasjon-varen-2022/>

Global distribution of project commitments¹

We invested in impact bonds supporting sustainable activities in 165 countries. Here are some more examples of the projects our investments support.

1 Offshore wind

Caixabank

Supporting France's diversification from nuclear energy with a 497MW offshore wind farm

SDG alignment **7 13**

2 Clean recycling

Kommunalbanken

Maximising the impact of recycling through a low-carbon, no-fossil-fuel recycling centre (see page 5)

SDG alignment **7 9 12 13**

3 Energy security

BNP Paribas

Enhancing energy security and maximising clean energy through a 1,400MW UK-Denmark energy interconnector

SDG alignment **7 9 13**

4 EV batteries

Export-Import Bank of Korea

Expanding lithium-ion battery production in Europe to support the growing market for electric cars

SDG alignment **3 8 9 13**

5 EV safety and efficiency

Denso

Clean-energy production of components that enhance electric-vehicle safety and efficiency (see page 5)

SDG alignment **3 7 9 13**

6 Low-carbon logistics

Prologis European Logistics Fund

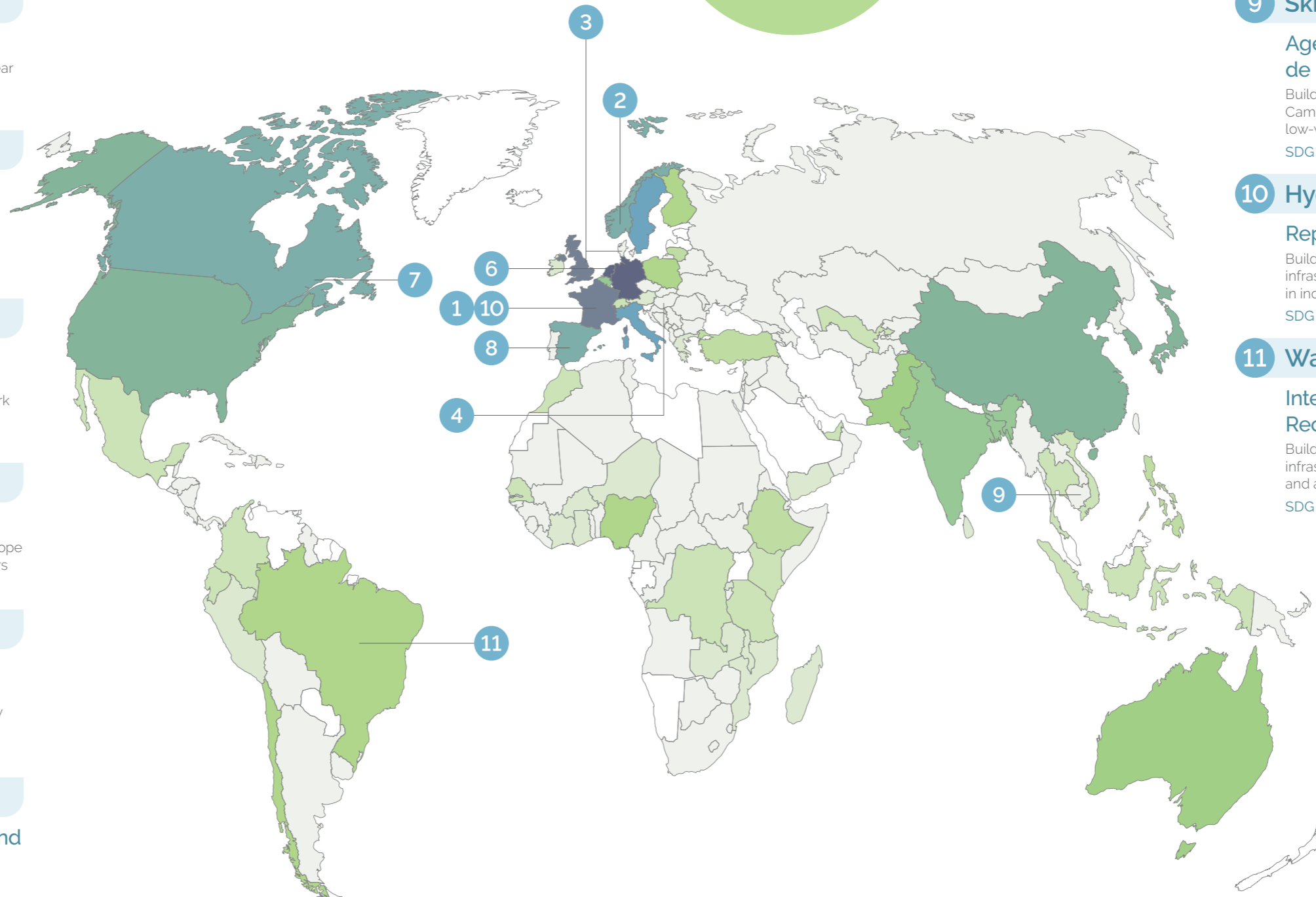
BREEAM Excellent-certified low-carbon distribution centre

SDG alignment **7 9 13**

Top three countries supported:

Germany
Netherlands
UK

Invested in
165
countries



7 Clean public transport

Province of Quebec

Building Montreal's hybrid and electric bus fleet to increase access to clean transport, and cut GHG emissions and air pollutants

SDG alignment **3 9 11 13**

8 Women's refugees

Comunidad de Madrid

Providing support services for vulnerable women and victims of gender violence (see page 5)

SDG alignment **5 11**

9 Skills and training

Agence Française de Développement

Building skills-training capacity to support Cambodia's move away from a low-skill, low-wage economy

SDG alignment **4 8**

10 Hydrogen infrastructure

Republic of France

Building hydrogen-production and distribution infrastructure to support decarbonisation in industry and haulage

SDG alignment **9 11 13**

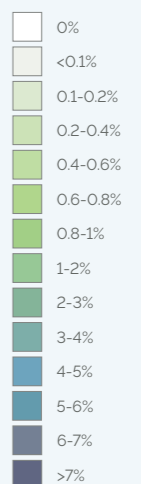
11 Water and sanitation

International Bank for Reconstruction and Development

Building water-management and treatment infrastructure to improve drought resilience and access to water and sanitation (see page 5)

SDG alignment **3 5 6 9 11**

Project commitments – percentage of portfolio

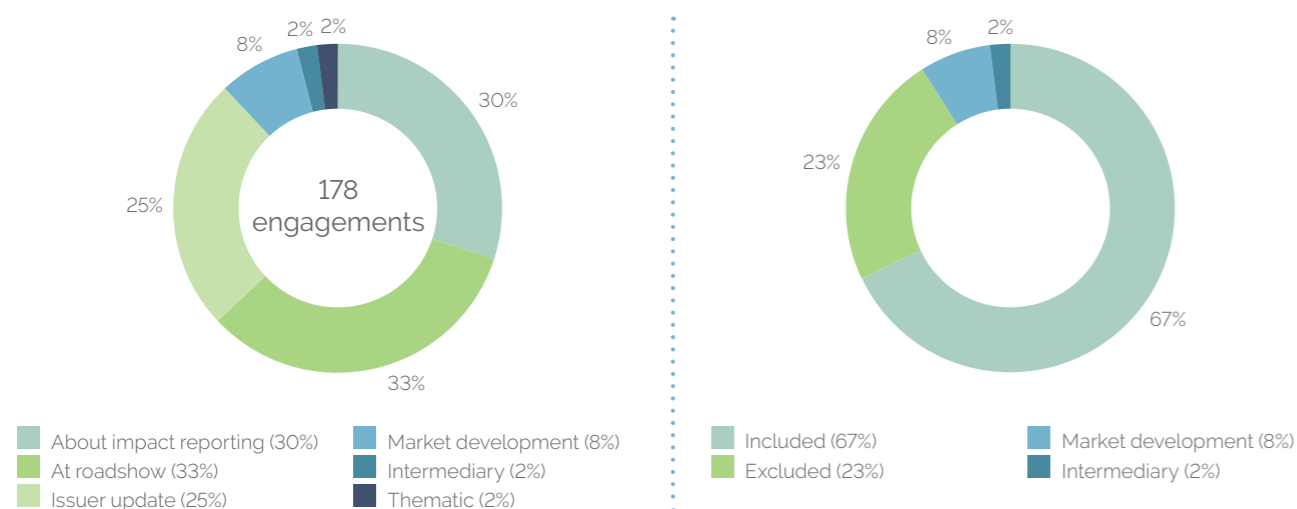


¹ Coverage ratio of 89% of 2022 average portfolio holdings.
Source: Issuer Impact Reports, AIM Engagement.

Engagement highlights

In the 12 months to the end of June 2023, we carried out 178 engagements. We primarily engage through:

- issuer-roadshow engagements, which saw the largest increase over last year, reflecting our growing engagement with issuers coming to market
- issuer-update engagements, which also increased last year
- impact-reporting engagements, which enabled us to achieve high coverage for our impact data and gave us an opportunity to feedback to issuers regarding their reporting
- we engage with issuers that are included in our investable universe, and those that are excluded



¹ Data for period end 2019 – June 2023.



Thematic engagement highlights

Intent

The rapid growth of the EV market has drawn attention to the comparatively weak human rights protection in some jurisdictions where metals and mineral supply chains are concentrated.

The International Energy Agency (IEA) forecasts a fourfold rise in demand for metals and minerals for clean-energy technologies by 2040, with particularly high growth for EV-related minerals such as lithium and cobalt.¹ Other materials with roles to play in electrifying transport, such as bauxite, copper and iron, are also in high demand. Some of the supply chains for these materials are concentrated in jurisdictions with weaker human-rights protection and have been implicated in violations, including child labour and poor or hazardous working conditions, among others.

Countries, regulators, NGOs and companies are increasingly recognising that the rising demand for these minerals poses severe environmental and social risks, despite their key role in the climate transition. Several mineral and material-specific initiatives have emerged, as well as improved guidance on responsible mineral sourcing.² Our thematic engagement for 2023 focuses on human rights risks in the complex global EV supply chains.

Our intention is to:

- 1 Deepen our understanding of how key players identify, manage and disclose human-rights risks
- 2 Advocate for industry-leading standards
- 3 Engage on human rights as part of our role as a participant in the Principles for Responsible Investment (PRI) Advance initiative

Approach

We are taking both a thematic and a collective approach to engaging on human rights issues in the EV supply chain. Our definition of human rights is grounded in the International Bill of Human Rights.

When considering enterprises, we also refer to the International Labour Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work and the UN Guiding Principles on Business and Human Rights. Human-rights risks can present in many forms, from modern slavery and child labour to health and safety, working conditions and community rights. We tailor our human-rights risk assessment to the geographies and activities in which the issuers are involved, and their position in the supply chain. For example, a mining company in higher-risk regions is more directly exposed to human-rights risks than an automotive manufacturer, whose exposure is likely to be through its suppliers.

Outcomes

We have completed a number of thematic engagements and will be conducting more this year.

We also look forward to participating in the collective engagements under the PRI Advance initiative.

- Each issuer in our engagement aligns its human-rights policy with UN Guiding Principles on Business and Human Rights.
- Issuers have varying ability to identify, manage and disclose on human-rights risks. All the issuers we engaged with did so constructively and were open about the challenges in identifying and managing risks.
- We provided feedback to each issuer regarding the merits of their approach to human rights management and any areas for improvement. As part of this, we showed issuers examples of what we consider to be best practice.
- All the automotive manufacturing issuers we spoke to regularly engaged with investors on human-rights risk management. However, several of the mining issuers, for example copper miners, had not previously received targeted investor interest on the topic.

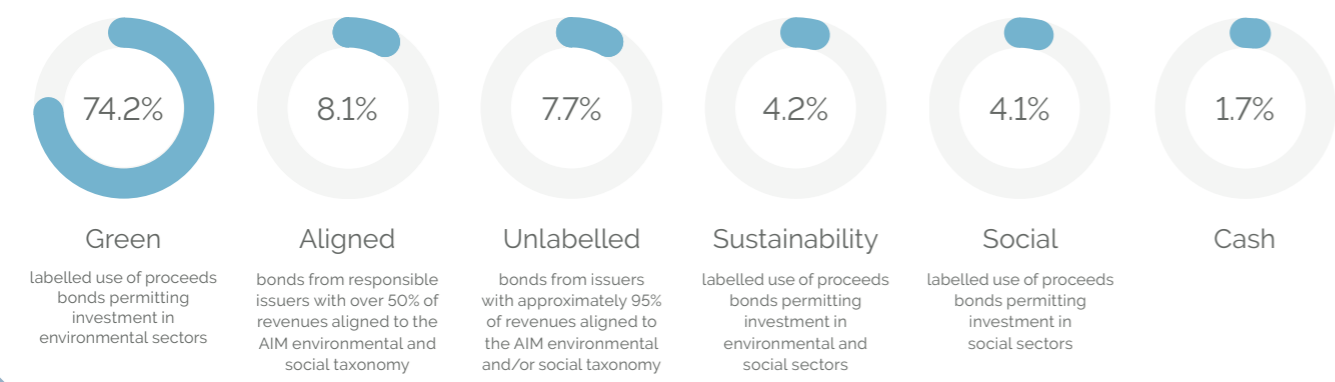
¹ <https://iea.blob.core.windows.net/assets/24d5dfbb-a77a-4647-abcc-667867207f74/TheRoleofCriticalMineralsinCleanEnergyTransitions.pdf>

² Such as the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

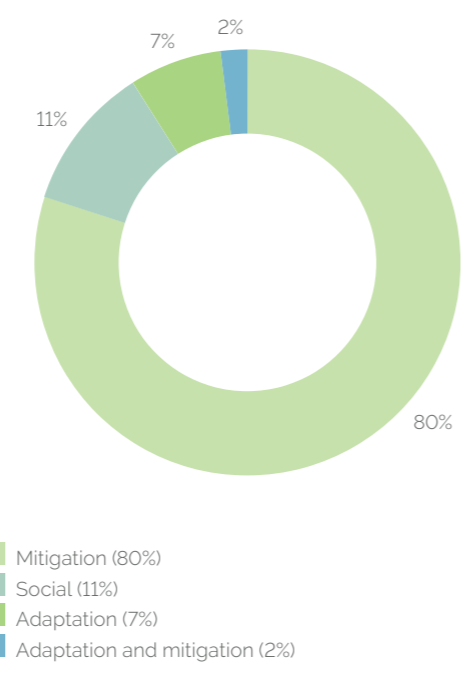
Portfolio composition

Our mission is to manage fixed income portfolios that generate positive environmental and social impact towards achieving the Paris Agreement and the SDGs. The fund predominantly holds labelled use of proceeds bonds, with green bonds outweighing other types of impact bonds in the portfolio.

2022 portfolio holdings by bond type



2022 impact focus¹ (portfolio weight)

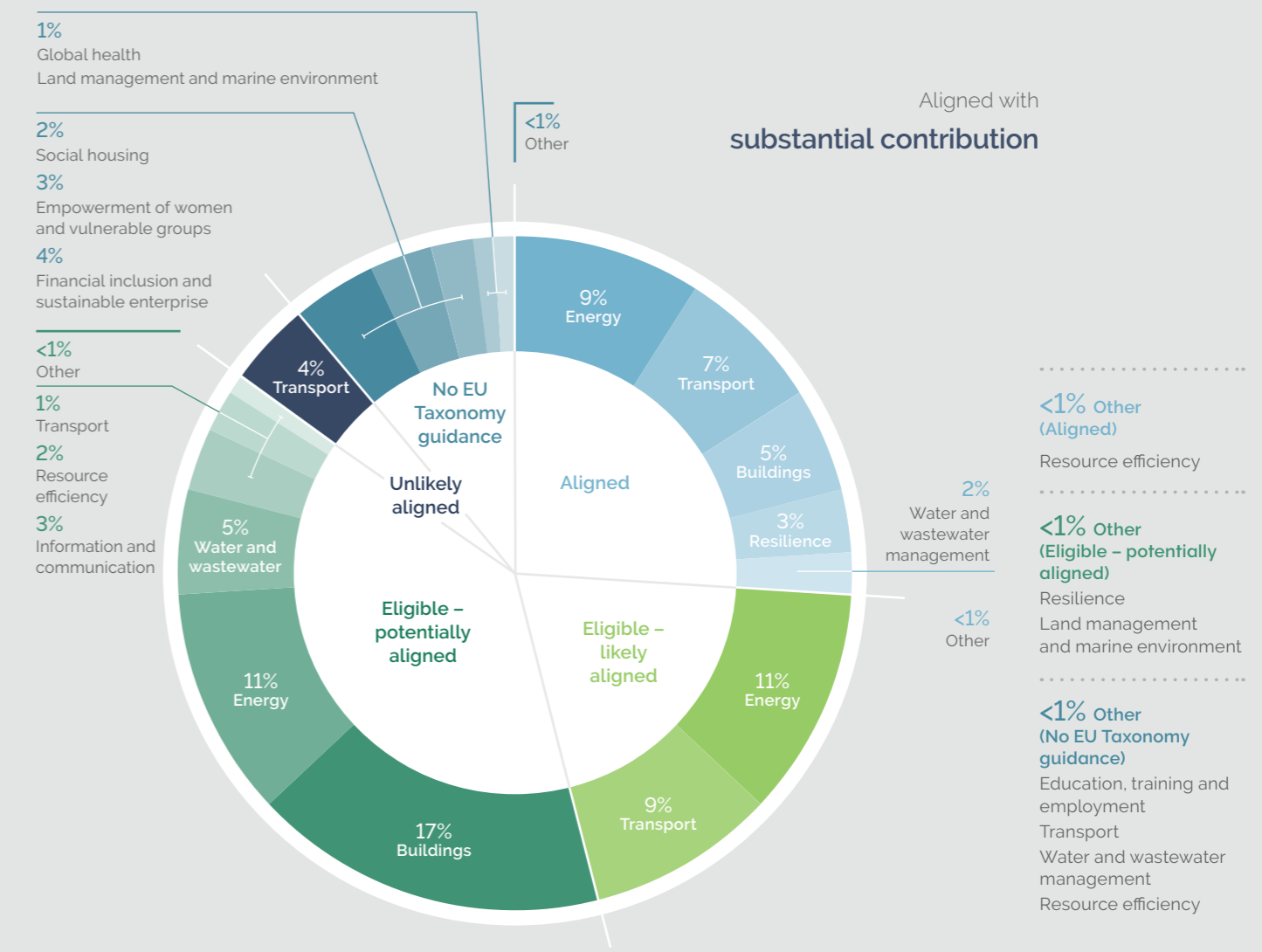


¹ Coverage ratio of 89% of 2022 average portfolio holdings.

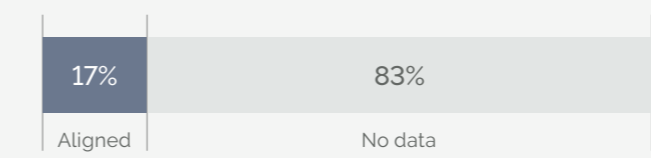
EU Taxonomy alignment and eligibility

This year we have expanded our EU Taxonomy study to cover alignment and eligibility, rather than just giving an indication of eligibility. This is a move from commenting on where EU Taxonomy guidance exists to commenting on where projects and activities align to the EU Taxonomy, and is the first time we have reported on the portfolio's EU Taxonomy alignment.

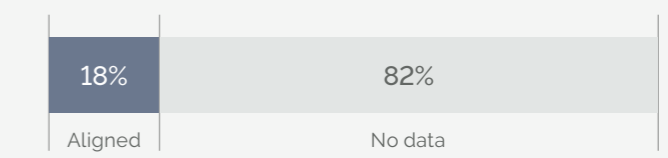
The chart shows alignment and eligibility of the portfolio by sector:



Aligned with
do no significant harm



Aligned with
minimum social safeguards



Coverage ratio of 89% of 2022 average portfolio holdings

Net zero alignment

Following our pilot in 2021, this year we assessed for the second time the net zero alignment of our funded projects.

Eligible pool data availability



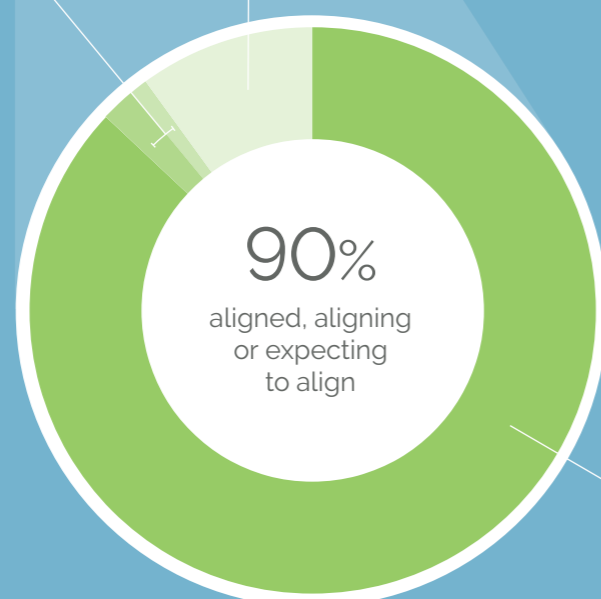
Alignment of eligible pool with data

Aligning 1%

Project performance meets the current year's threshold on a net zero-by-2050 trajectory

Expected to align 2%

Issuer has a sufficiently robust net zero-aligned strategy, therefore underlying projects can be expected to align with a net zero-by-2050 trajectory



Not aligned 10%

Project emissions may exceed the current year's alignment criteria but project contributes to decarbonisation and climate resilience through supporting themes such as electrification, efficiency of energy usage and generation and pollution prevention

Aligned 87%

Project performance currently fulfils 2050 criteria for net zero alignment

Net Zero Asset Managers initiative

In 2021, AIM joined the Net Zero Asset Managers initiative (NZAM), an international group of asset managers committed to supporting the goal of net zero greenhouse-gas emissions by 2050 or sooner. In doing so, we continue to advance in our goal of supporting investing that aligns with the Paris Agreement and the SDGs. As part of this commitment, we have set interim targets to map our pathway towards net zero emissions.

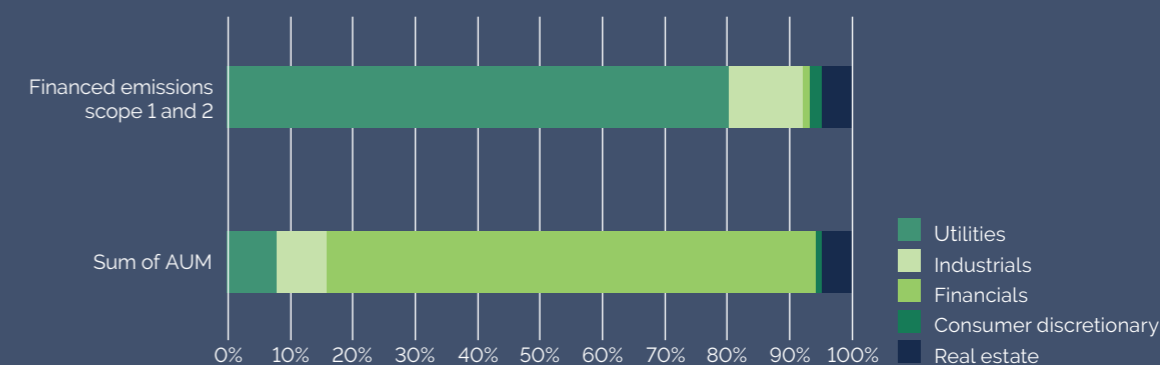
Our targets

By 2030, 85% of financed emissions from corporate bond issuers held in our portfolios will be invested in issuers that are considered Paris-aligned.

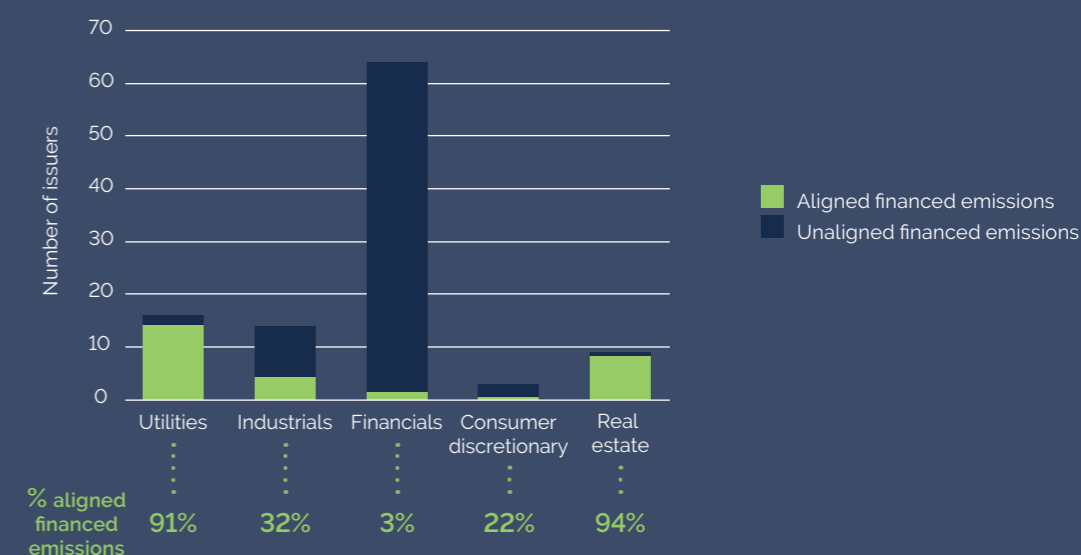
Progress so far

In 2022, 81% of our portfolio-financed emissions are from issuers considered Paris-aligned. This provides a strong basis to increase the coverage of our targets in the future.

Sector effects on financed emissions



Breakdown of intra-sector alignment

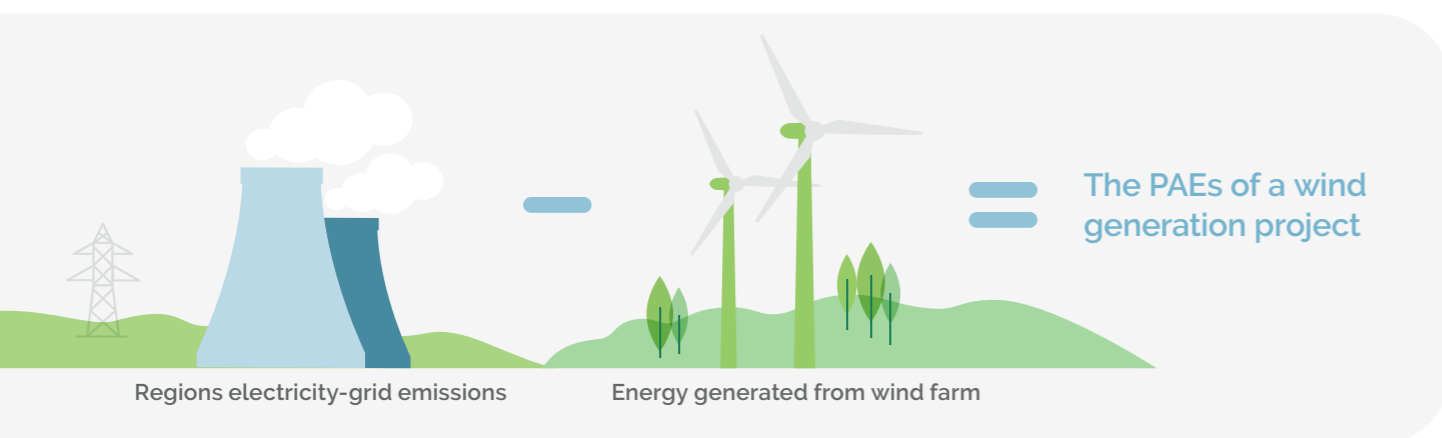




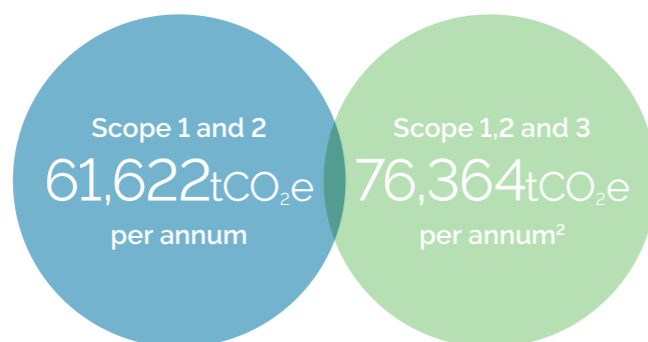
Carbon Yield™

A project-level potential avoided-GHG-emissions assessment provides an important measure of the positive climate impact being delivered by applying the SPECTRUM methodology.

Using an example of a wind farm, PAE is calculated by deducting the energy generated from the operation of the wind farm from the country or region's electricity-grid emissions under a dynamic scenario for its expected working life.



Project GHG emissions footprint¹

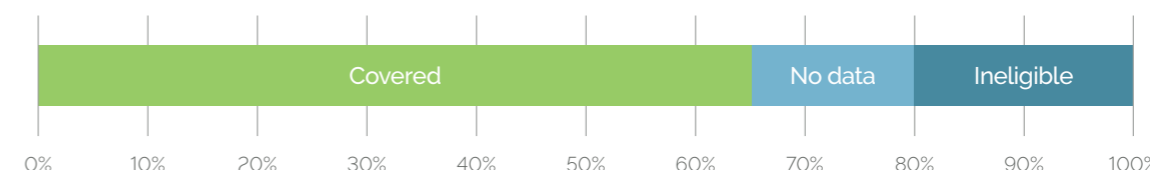


¹ Under STEPS
² Includes partial scope 3 emissions (ie from project construction and material use).

³ Issuers provide their impact reports by bond frameworks, which are a collection of funded projects. The average project proportion covered by our Carbon Yield assessment for each framework is 67%.

Our portfolio Carbon Yield calculations cover 65% of the portfolio holdings. The remaining proportion was deemed either ineligible, as those holdings related to activities not expected to have significant mitigation potential, or was not covered due to insufficient data.³

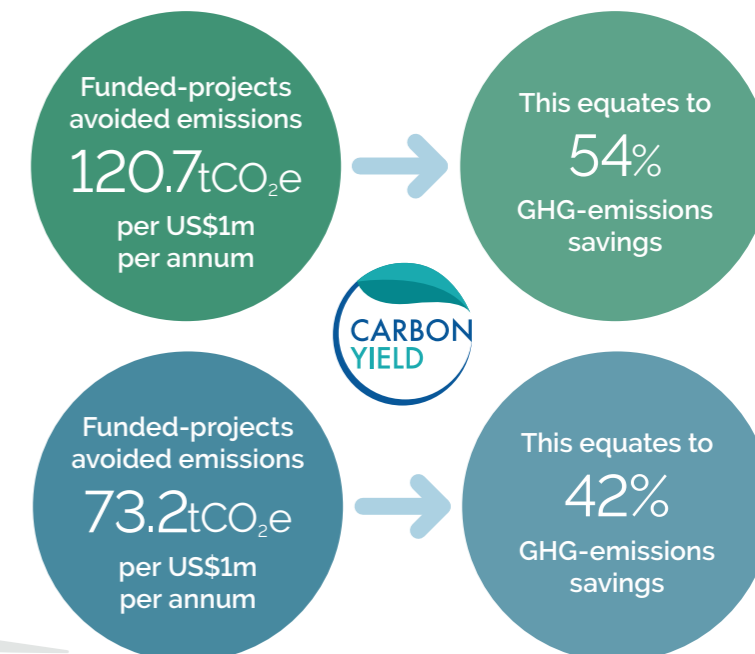
Potential avoided emissions portfolio coverage



We continue to use dynamic baselines instead of business-as-usual baselines in our Carbon Yield calculations to account for expected changes in the composition of electricity grids globally and related changes to grid-emission factors. Our dynamic baselines this year are based on the IEA's Stated Policies Scenario (STEPS) and Net Zero Emissions Scenario (NZE).⁴

Our Portfolio Carbon Yields:

-
- STEPS
- NZE
-



⁴ <https://www.iea.org/reports/global-energy-and-climate-model/understanding-gec-model-scenarios>

Weighted Average Carbon Intensity (WACI)

We calculate issuer GHG-emissions metrics for our portfolios in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations for asset managers. These metrics include the Weighted Average Carbon Intensity (WACI). Please refer to our TCFD report for the other issuer-level metrics linked to our portfolios.¹

What is Weighted Average Carbon Intensity?

WACI provides a weighted average of the carbon intensity for each issuer held within the portfolio, calculated based on tCO₂e per US\$1m of revenue (for corporates) and tCO₂e per US\$1m Purchasing Power Parity-adjusted GDP (for sovereign-related issuers).²

WACI

WACI is a snapshot metric; it shows a portfolio's carbon-intensity at one point in time and does not capture issuers' emission-reduction commitments or the decarbonisation trajectory. It is influenced by the portfolio's sectoral composition; some sectors are inherently more carbon intensive than others. While we do not rely on issuer WACI as a key to drive decisions within our SPECTRUM process, we see it as an indicator of the effectiveness of the climate assessment we perform at the issuer level within our SPECTRUM verification process.

$$\sum_{i=1}^n \left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} \times \frac{\text{issuer's scope 1 and 2 GHG emissions}_i}{\text{issuer's US\$m revenue}_i} \right)$$

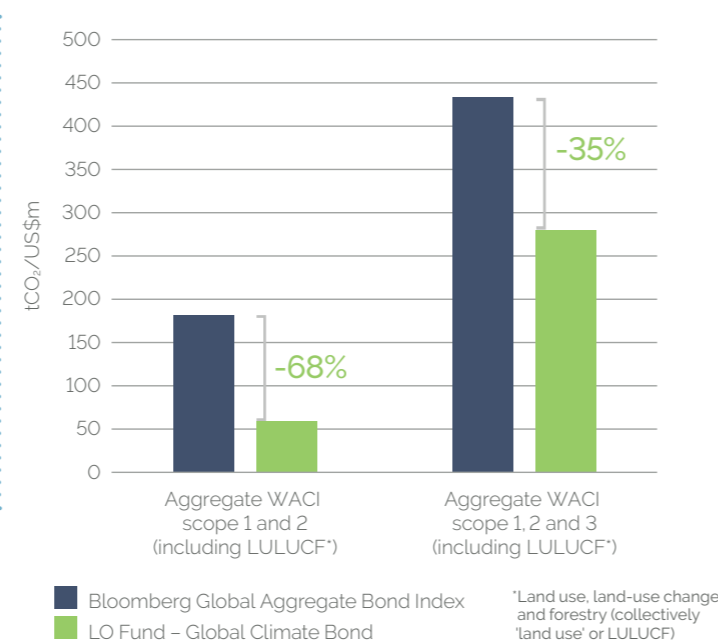
The portfolio had an aggregated scope 1 and 2 WACI of

58.9
tCO₂e/US\$m

When scope 3 emissions are included, the aggregated WACI increases by nearly five times to

279.6
tCO₂e/US\$m

Portfolio vs Benchmark WACI

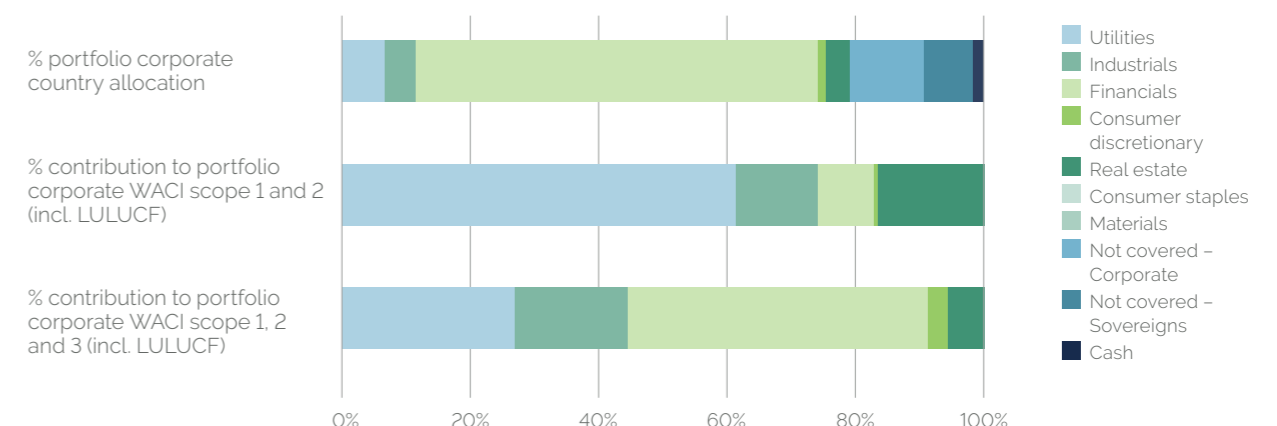


Corporate
scope 1 and 2 WACI of
41
tCO₂e/US\$m
revenue in 2022

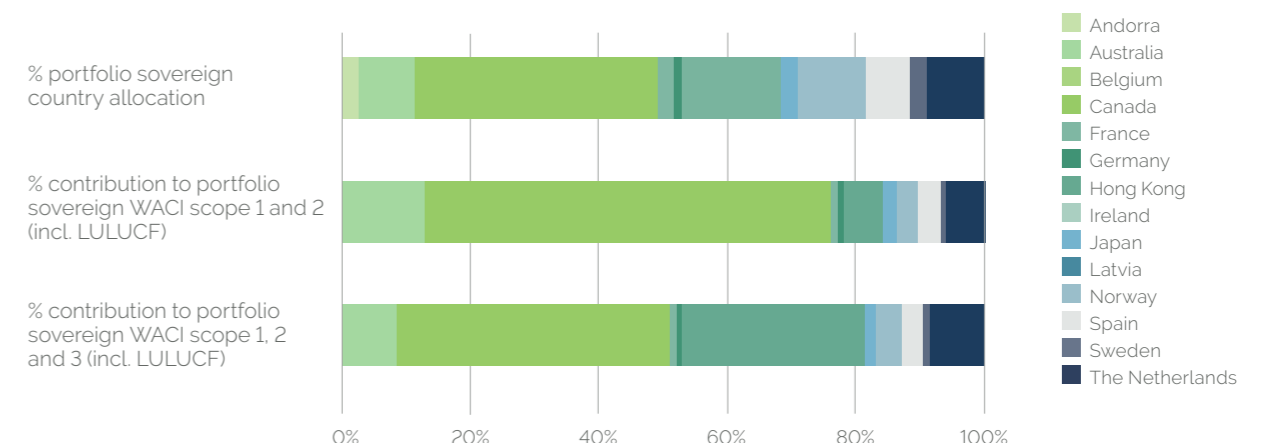
Sovereign
scope 1 and 2 WACI of
17.9
tCO₂e/PPP-
adjusted US\$m GDP

To ensure the highest level of transparency in our reporting, we calculate and publish separate WACI figures for our sovereign and corporate issuers. These two categories of issuers pose different methodological and data-availability challenges, with methodologies and data availabilities behind corporate WACI being more advanced than those of sovereign issuers.

Corporate WACI contribution vs. portfolio sector distribution



Sectoral breakdown % sovereign WACI allocation vs. contribution



Total coverage 85%.

¹ <https://affirmativeim.com/wp-content/uploads/2022/12/AIM-2022-TCFD-Climate-Report.pdf>

² The WACI should be regarded as an assessment of the carbon profile for the share of the portfolio covered by the analysis. The WACI was calculated by maintaining original portfolio weights. The same approach was used for the benchmark.

Disclaimers

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